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SUBJECT: TREASURY SECRETARY SNOW'S VISIT TO CANADA: "MOST USEFUL, HELPFUL AND WORTHWHILE"

REF A) Calgary 331 B) Calgary 196

1. For official use only. Not for Internet distribution.

2. Summary: Treasury Secretary Snow's July 7-9 visit to Calgary highlighted the strong positive relationship between the US and Canada and focused on cooperation in the energy sector. Canadian Minister of Finance Ralph Goodale hosted a tour of the second largest petroleum reserves in the world (Ref B), followed by informal discussions with business and government leaders, bilateral meetings, and two well-attended press conferences.

3. Given the location of the visit, press coverage focused on energy: U.S. investment, concerns about Chinese investment (Ref A), and pipeline prospects. There was also interest in the prospects of re-opening the border to Canadian beef and on debt reduction in the wake of the G-8 summit. Goodale and Snow also weighed in on global macroeconomic imbalances, strategic review of the international financial institutions, trade disputes, corporate governance and the need to support Nigerian reformers. The media ignored some real news, such as commitment to conclude revision of the bilateral tax treaty by the end of this year.

3. The visit to the oil sands highlighted the fact that Canada is the largest source of energy for the U.S. and that we enjoy excellent cooperation in developing North America's energy resources. This was the first cabinet-level visit to the oil sands, and the first bilateral visit by a Treasury Secretary in over 20 years. Secretary Snow's comment to the

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press that the visit was "most useful, helpful and worthwhile" sums up the tone of the visit, which is intended to be the first of annual consultations. Snow and Goodale frequently expressed, both privately and to the press, the close and positive working relationship between our two countries. End summary

4. Treasury Secretary Snow traveled to Calgary, Alberta July 7-9 for meetings with Minister of Finance Ralph Goodale. Ambassador Wilkins, on his first official trip outside Ottawa, participated in the full schedule and joined Minister Goodale in hosting an informal BBQ for business leaders and government officials, including the Deputy Prime Minister, at the Consul General's residence. The trip featured a July 8 tour of the oil sands in Fort McMurray, Alberta, and bilateral meetings on July 9. Both events were followed by well-attended press conferences.

Wide-ranging discussion

5. In their opening statements to the press, Goodale and Snow explained that this is the first of what they expect to become annual bilateral consultations, with the next meeting to be held in the U.S. On the hour-and-a-half flight to and from the oil sands in Fort McMurray July 8 they discussed the full range of U.S.-Canada economic issues, including softwood lumber and the Byrd Amendment, both governments' commitment to resolving the restrictions on beef exports to the U.S., North American energy security, and commitment to complete revision of the tax treaty.

6. During the bilateral meeting on July 9, they covered strategic review of the International Financial Institutions (World Bank and IMF), noting that it has been on the international agenda for 18 months and that Canada and the U.S. intend to do further work together to ensure that the institutions remain vital and focused. They discussed the

need to send strong signals of support to the Government of Nigeria, encouraging reformers there who are working to fight corruption and support good governance. The two also covered follow-up to the G-8 summit at Gleneagles, ways the U.S. and Canada can continue to enhance cross-border trade in financial services, and new rules and regulations related to corporate governance that would maintain a robust approach but address concerns about unintended impact on the cost of capital for small and medium firms. Details of the July 9 meeting are being reported septel.

Energy is the focus

17. In response to a question on how our governments are following up on the G-8 initiatives to encourage investment in energy production and increase refining capacity, Goodale said Canada relies on successful markets and oil sector response. As oil prices rise, drilling activity increases and there is accelerated interest in the northern pipelines. The finance ministers had pointed out that other countries need to respond too, and there is a role for science and technology. Most press reporting has focused on the energy elements of the visit.

Making Carbon Dioxide valuable

18. The Petroleum Technology Research Center (PTRC), a joint US-Canada project based in Saskatchewan, provided an update on their research showing that carbon dioxide sequestration can enhance oil recovery, making CO2 a valuable commodity. In response to a question on supporting G-8 comments on energy security, Secretary Snow referred to the PTRC's project as an example of just the type of research, cooperation and innovation that is necessary. He highlighted U.S. investment in research and development, the impact of higher oil prices on both exploration and conservation, and the energy legislation that is before the U.S. Congress. He pointed out that although there has not been a new refinery built in the U.S. since 1976, the existing ones have been augmented. The U.S., he said, is trying to encourage greater use of nuclear power and pursuing advances in clean coal technology.

Pipeline progress

19. Regarding the regulatory climate for the Alaska pipeline, Goodale said the GOC's first priority is to complete the MacKenzie Pipeline in a timely way, with the Alaskan pipeline right behind that. He said that he and Secretary Snow had not discussed timing, but the Deputy

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Prime Minister is leading the cabinet process that will guide the pipeline projects.

What about China?

110. The press, on both days, probed USG concern about Chinese government interest in energy investment in Canada (Ref A). In response to questions, Goodale and Snow jointly stressed the importance of the U.S.-Canada energy relationship and their confidence in market forces in encouraging investment that will improve energy security and support technological innovation. Secretary Snow reiterated his confidence that the GOC would "make a considered judgment through the review process" on investments by the Chinese government. Minister Goodale, while emphasizing the importance of foreign direct investment and the benefits of engaging China in the world economy, noted that the GOC may need to "refresh" the Investment Act with an eye to security issues.

We agree on Cows

111. In response to a question on the legal process around BSE and reopening the border to Canadian beef, Minister Goodale said he has not had a meeting with Secretary Snow over the past 18 months where it wasn't discussed, and confirmed that Secretary Snow understands the "strength and depth of feeling in Canada." Secretary Snow added that the USG is seeking to remove the "ill-considered" injunction and that this is an issue for the global trading system, not just for the U.S. and Canada. We need, he said, to make sure decisions are based on science, not politics. (At dinner the previous evening, Deputy Prime Minister Ann McClellan made the same points to Canadian private sector guests, reiterating that the USG and GOC are working together to solve the problem.)

Tax treaty revision by the end of the year

¶12. Minister Goodale announced progress on the bilateral tax treaty revision during his opening statement to the press on both July 8 and July 9. He said both sides are committed to completing revision by the end of the year, possibly this fall. Although the press did not pick up on the announcement, it will be welcomed by members of the American Chamber of Commerce in Toronto who have advocated revision for several years.

Strong economies -----

¶13. In response to questions about global macroeconomic imbalances, Secretary Snow provided an overview of U.S. economic trends and expressed confidence that "the deficit is moving in the right direction." He stressed that the President's fiscally responsible policies over the past few years have supported strong growth that is "putting us on a very good path" regarding the fiscal deficit.

¶14. Minister Goodale added that Canada is very proud of having enjoyed fiscal surpluses since 1997, giving it the best fiscal performance in the G-7. He added that all G-8 members face challenges, but noted that the new U.S. data (notably employment figures) are very good news.

Development and debt relief -----

¶15. In response to a question on debt relief, Minister Goodale noted that seven or eight years ago the GOC embarked on an initiative to eliminate bilateral debt owed to Canada by the poorest countries and said that they are about halfway through the process. So far, including the announcement just made in Gleneagles, Canada has committed about C\$3.6 billion to debt relief.

Comment -----

¶16. Secretary Snow's comment to the press that the visit was "most useful, helpful and worthwhile" sums up the tone of the visit. Snow and Goodale frequently expressed, both privately and to the press, the close and positive working relationship between our two countries. Both press conferences (on July 8 and July 9) were well attended despite the fact that they coincided with the beginning of the Stampede, Calgary's biggest event of the year and, as the questions above reflect, there was solid interest in a wide range of topics. However, media interest in U.S. views on Chinese investment seemed to overshadow some of the real news of the visit, such as the commitment to revise the tax treaty.

¶17. Secretary Snow did not clear this message.

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